

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 8-K

**CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported) November 2, 2017

TEMPUR SEALY INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

001-31922

(Commission File Number)

33-1022198

(I.R.S. Employer Identification No.)

1000 Tempur Way

Lexington, Kentucky 40511

(Address of principal executive offices) (Zip Code)

(800) 878-8889

(Registrant's telephone number, including area code)

N/A

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the Registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition

On November 2, 2017, Tempur Sealy International, Inc. (the “Company”) issued a press release to announce its financial results for the quarter ended September 30, 2017 and increased financial guidance for 2017. A copy of the press release is attached as Exhibit 99.1 to this current report on Form 8-K and is incorporated herein by reference.

The information in this Item 2.02 (including Exhibit 99.1) shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 7.01 Regulation FD Disclosure

The information furnished under Item 2.02 of this Form 8-K is hereby incorporated by reference under this Item 7.01 as if fully set forth herein.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit	Description
99.1	Press Release dated November 2, 2017, titled “Tempur Sealy Reports Third Quarter 2017 Results”

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: November 2, 2017

Tempur Sealy International, Inc.

By: /s/ Bhaskar Rao

Name: Bhaskar Rao

Title: Executive Vice President & Chief Financial Officer

TEMPUR+SEALY

TEMPUR SEALY REPORTS THIRD QUARTER 2017 RESULTS

- Net Sales in North America Declined, Tempur-Pedic Sales Increased 26% Excluding Mattress Firm
- Increased Financial Guidance to \$435 to \$450 Million of Adjusted EBITDA in 2017

LEXINGTON, KY, November 2, 2017 - Tempur Sealy International, Inc. (NYSE: TPX) today announced financial results for the third quarter ended September 30, 2017. The Company also increased its financial guidance for the full year 2017.

THIRD QUARTER 2017 FINANCIAL SUMMARY

- Total net sales decreased 12.9% to \$724.8 million from \$832.4 million in the third quarter of 2016. On a constant currency basis⁽¹⁾, total net sales decreased 13.3%, with a decrease of 17.2% in the North America business segment and an increase of 7.0% in the International business segment.
- Gross margin under U.S. generally accepted accounting principles ("GAAP") was 43.1% as compared to 43.5% in the third quarter of 2016.
- GAAP operating income decreased 27.8% to \$94.6 million as compared to \$131.1 million in the third quarter of 2016. Adjusted operating income⁽¹⁾ decreased 23.6% to \$100.1 million as compared to \$131.1 million in the third quarter of 2016.
- GAAP net income decreased 42.7% to \$44.6 million as compared to \$77.8 million in the third quarter of 2016. Adjusted net income⁽¹⁾ decreased 29.4% to \$54.9 million as compared to \$77.8 million in the third quarter of 2016.
- Earnings before interest, tax, depreciation and amortization ("EBITDA")⁽¹⁾ decreased 20.1% to \$123.8 million as compared to \$155.0 million for the third quarter of 2016. Adjusted EBITDA⁽¹⁾ decreased 16.6% to \$129.3 million as compared to \$155.0 million in the third quarter of 2016.
- GAAP earnings per diluted share ("EPS") decreased 38.6% to \$0.81 as compared to \$1.32 in the third quarter of 2016. Adjusted EPS⁽¹⁾ decreased 24.2% to \$1.00 as compared to \$1.32 in the third quarter of 2016.
- Net cash provided by operating activities was \$127.3 million as compared to \$57.9 million in the third quarter of 2016. The Company generated \$109.8 million of free cash flow⁽¹⁾ in the third quarter as compared to \$40.3 million in the third quarter of 2016.
- The Company ended the third quarter of 2017 with total debt and consolidated funded debt less qualified cash⁽¹⁾ of \$1.8 billion. Leverage based on the ratio of consolidated funded debt less qualified cash to adjusted EBITDA⁽¹⁾ was 3.70 times for the trailing twelve months ended September 30, 2017.

KEY HIGHLIGHTS

(in millions, except percentages and per common share amounts)	Three Months Ended		% Change	% Change Constant Currency ⁽¹⁾
	September 30, 2017	September 30, 2016		
Net sales	\$ 724.8	\$ 832.4	(12.9)%	(13.3)%
Net income	44.6	77.8	(42.7)%	(43.3)%
Adjusted net income ⁽¹⁾	54.9	77.8	(29.4)%	(30.1)%
EPS	0.81	1.32	(38.6)%	(39.4)%
Adjusted EPS ⁽¹⁾	1.00	1.32	(24.2)%	(25.0)%
EBITDA ⁽¹⁾	123.8	155.0	(20.1)%	(20.6)%
Adjusted EBITDA ⁽¹⁾	129.3	155.0	(16.6)%	(17.1)%

Tempur Sealy International, Inc. Chairman and CEO Scott Thompson commented, "The team generated one of the highest cash flow quarters in our company's history despite several challenges including a significant change in our distribution network, three hurricanes, and commodity inflation. Looking ahead, our robust pipeline of innovation provides the foundation for new products next year, especially an exciting new Tempur-Pedic line in North America. These products, combined with our new multi-channel advertising campaigns will reinforce our leadership position in premium bedding, provide our retailer partners with a competitive advantage to grow their revenue and earnings, and simplify the consumers' retail experience."

(1) This is a non-GAAP financial measure. Please refer to "Non-GAAP Financial Measures and Constant Currency Information" below.

Business Segment Highlights

The Company's business segments include North America and International. Corporate operating expenses are not included in either of the business segments and are presented separately as a reconciling item to consolidated results.

North America net sales decreased 16.9% to \$580.6 million from \$698.5 million in the third quarter of 2016. On a constant currency basis⁽¹⁾, North America net sales decreased 17.2% compared to the third quarter of 2016. Gross margin was 41.1% as compared to 41.5% in the third quarter of 2016. Operating margin was 17.2% as compared to 18.4% in the third quarter of 2016.

During the third quarter, hurricanes impacted operations in two of the Company's largest markets, Texas and Florida. The Company estimates that the hurricanes impacted our sales in the quarter by approximately \$10 to \$15 million, and the flow-through of those sales to EBITDA would be in the range of \$3 to \$5 million. The Company noted that its adjusted EBITDA does not include this impact from lost sales related to hurricanes.

At the beginning of the second quarter, the Company terminated its contract with Mattress Firm, Inc. ("Mattress Firm"). In the third quarter of 2016, net sales to Mattress Firm were \$171.5 million. Excluding Mattress Firm sales in the prior year, North America net sales increased 10% in the third quarter of 2017 driven by growth by Tempur-Pedic which increased 26% in the period.

North America net sales through the wholesale channel decreased \$137.8 million or 20.1% to \$547.3 million and excluding Mattress Firm sales in the prior year, the wholesale channel increased 7% as compared to the third quarter of 2016. North America net sales through the direct channel increased \$19.9 million or 148.5% to \$33.3 million, primarily driven by increased web sales of over 200%, as compared to the third quarter of 2016.

North America adjusted gross margin⁽¹⁾ declined 30 basis points as compared to the third quarter of 2016. The decline was driven primarily by fixed cost deleverage on lower unit volume, significant commodity cost inflation and unfavorable brand mix. This was offset by operational improvements, channel mix and product mix. North America adjusted operating margin⁽¹⁾ declined 100 basis points as compared to the third quarter of 2016. The decline in adjusted operating margin was driven by the gross margin decline, as well as unfavorable operating expense leverage.

International net sales increased 7.7% to \$144.2 million from \$133.9 million in the third quarter of 2016. On a constant currency basis⁽¹⁾, International net sales increased 7.0% compared to the third quarter of 2016. Gross margin was 51.2% as compared to 53.8% in the third quarter of 2016. Operating margin was 14.4% as compared to 19.1% in the third quarter of 2016.

International net sales through the wholesale channel increased \$10.5 million or 9.9% to \$116.7 million and sales through the direct channel decreased \$0.2 million or 0.7% to \$27.5 million as compared to the third quarter of 2016.

International adjusted gross margin⁽¹⁾ declined 260 basis points as compared to the third quarter of 2016. The decline was primarily driven by product launch costs, as well as unfavorable channel and brand mix. International adjusted operating margin⁽¹⁾ declined 160 basis points as compared to the third quarter of 2016, primarily driven by gross margin.

Corporate operating expense increased to \$25.9 million from \$22.8 million in the third quarter of 2016.

Balance Sheet

As of September 30, 2017, the Company reported \$41.8 million in cash and cash equivalents and \$1.8 billion in total debt, as compared to \$65.7 million in cash and cash equivalents and \$1.9 billion in total debt as of December 31, 2016.

Financial Guidance

The Company also today increased its financial guidance for 2017. For the full year 2017, the Company currently expects adjusted EBITDA⁽¹⁾ to range from \$435 million to \$450 million.

The Company noted its expectations are based on information available at the time of this release, and are subject to changing conditions, many of which are outside the Company's control.

(1) This is a non-GAAP financial measure. Please refer to "Non-GAAP Financial Measures and Constant Currency Information" below.

The Company also noted that its 2017 outlook for adjusted EBITDA is a non-GAAP financial measure that excludes or has otherwise been adjusted for items impacting comparability. The Company further noted that it is unable to reconcile this forward-looking non-GAAP financial measure to GAAP net income, its most directly comparable forward-looking GAAP financial measure, without unreasonable efforts, because the Company is currently unable to predict with a reasonable degree of certainty the type and extent of certain items that would be expected to impact GAAP net income in 2017 but would not impact adjusted EBITDA. These items that impact comparability may include restructuring activities, the impact of the termination of contracts with Mattress Firm, foreign currency exchange rates, income taxes, and other items. The unavailable information could have a significant impact on the Company's full year 2017 GAAP financial results.

Conference Call Information

Tempur Sealy International, Inc. will host a live conference call to discuss financial results today, November 2, 2017, at 8:00 a.m. Eastern Time. The dial-in number for the conference call is 800-850-2903. The dial-in number for international callers is 224-357-2399. The call is also being webcast and can be accessed on the investor relations section of the Company's website, <http://www.tempursealy.com>. After the conference call, a webcast replay will remain available on the investor relations section of the Company's website for 30 days.

Non-GAAP Financial Measures and Constant Currency Information

For additional information regarding EBITDA, adjusted EBITDA, adjusted EPS, adjusted net income, adjusted operating income, adjusted gross margin, adjusted operating margin, free cash flow, consolidated funded debt, and consolidated funded debt less qualified cash (all of which are non-GAAP financial measures), please refer to the reconciliations and other information included in the attached schedules. For information on the methodology used to present information on a constant currency basis, please refer to "Constant Currency Information" included in the attached schedules.

Forward-Looking Statements

This press release contains "forward-looking statements," within the meaning of the federal securities laws, which include information concerning one or more of the Company's plans, objectives, goals, strategies, and other information that is not historical information. When used in this release, the words "estimates," "expects," "guidance," "anticipates," "projects," "plans," "proposed," "intends," "believes," and variations of such words or similar expressions are intended to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to the Company's expectations regarding adjusted EBITDA for 2017 and performance generally for 2017 and subsequent periods and the Company's expectations for product launches in 2018 and multi-channel advertising campaigns. All forward-looking statements are based upon current expectations and beliefs and various assumptions. There can be no assurance that the Company will realize these expectations or that these beliefs will prove correct.

Numerous factors, many of which are beyond the Company's control, could cause actual results to differ materially from those expressed as forward-looking statements. These risk factors include risks associated with the termination of the Company's relationship with Mattress Firm; risks associated with the Company's capital structure and debt level; general economic, financial and industry conditions, particularly in the retail sector, as well as consumer confidence and the availability of consumer financing; changes in product and channel mix and the impact on the Company's gross margin; changes in interest rates; the impact of the macroeconomic environment in both the U.S. and internationally on the Company's business segments; uncertainties arising from global events; the effects of changes in foreign exchange rates on the Company's reported earnings; consumer acceptance of the Company's products; industry competition; the efficiency and effectiveness of the Company's advertising campaigns and other marketing programs; the Company's ability to increase sales productivity within existing retail accounts and to further penetrate the Company's retail channel, including the timing of opening or expanding within large retail accounts and the timing and success of product launches; the effects of consolidation of retailers on revenues and costs; changes in demand for the Company's products by significant retailer customers; the Company's ability to expand brand awareness, distribution and new products; the Company's ability to continuously improve and expand its product line, maintain efficient, timely and cost-effective production and delivery of its products, and manage its growth; the effects of strategic investments on the Company's operations; changes in foreign tax rates and changes in tax laws generally, including the ability to utilize tax loss carry forwards; the outcome of various pending tax audits or other tax, regulatory or investigation proceedings and pending litigation; changing commodity costs; the effect of future legislative or regulatory changes; and disruptions to the implementation of the Company's strategic priorities and business plan caused by abrupt changes in the Company's senior management team and Board of Directors.

Other potential risk factors include the risk factors discussed under the heading "Risk Factors" under ITEM 1A of Part 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2016. There may be other factors that may cause the

(1) This is a non-GAAP financial measure. Please refer to "Non-GAAP Financial Measures and Constant Currency Information" below.

Company's actual results to differ materially from the forward-looking statements. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

About Tempur Sealy International, Inc.

Tempur Sealy International, Inc. (NYSE: TPX) develops, manufactures and markets mattresses, foundations, pillows and other products. The Company's brand portfolio includes many highly recognized brands in the industry, including Tempur®, Tempur-Pedic®, Sealy® featuring Posturepedic® Technology, and Stearns & Foster®. World headquarters for Tempur Sealy International is in Lexington, KY. For more information, visit <http://www.tempursealy.com> or call 800-805-3635.

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TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(in millions, except percentages and per common share amounts)
(unaudited)

	Three Months Ended			Nine Months Ended		
	September 30,		Chg %	September 30,		Chg %
	2017	2016		2017	2016	
Net sales	\$ 724.8	\$ 832.4	(12.9)%	\$ 2,106.2	\$ 2,357.8	(10.7)%
Cost of sales ⁽¹⁾	412.6	470.3		1,238.8	1,367.8	
Gross profit	312.2	362.1	(13.8)%	867.4	990.0	(12.4)%
Selling and marketing expenses	155.4	175.2		461.4	498.1	
General, administrative and other expenses	71.0	64.0		206.5	207.6	
Customer termination charges, net ⁽¹⁾	—	—		14.4	—	
Equity income in earnings of unconsolidated affiliates	(3.5)	(2.4)		(10.6)	(8.6)	
Royalty income, net of royalty expense	(5.3)	(5.8)		(15.0)	(15.1)	
Operating income	94.6	131.1	(27.8)%	210.7	308.0	(31.6)%
Other expense, net:						
Interest expense, net	32.0	20.5		76.2	65.0	
Loss on extinguishment of debt	—	—		—	47.2	
Other expense (income), net	1.1	0.3		(8.4)	—	
Total other expense, net	33.1	20.8		67.8	112.2	
Income before income taxes	61.5	110.3	(44.2)%	142.9	195.8	(27.0)%
Income tax provision	(20.3)	(33.7)		(48.0)	(60.2)	
Net income before non-controlling interests	41.2	76.6	(46.2)%	94.9	135.6	(30.0)%
Less: Net loss attributable to non-controlling interests	(3.4)	(1.2)		(8.1)	(3.1)	
Net income attributable to Tempur Sealy International, Inc.	\$ 44.6	\$ 77.8	(42.7)%	\$ 103.0	\$ 138.7	(25.7)%
Earnings per common share:						
Basic	\$ 0.83	\$ 1.34		\$ 1.91	\$ 2.31	
Diluted	\$ 0.81	\$ 1.32	(38.6)%	\$ 1.89	\$ 2.28	(17.1)%
Weighted average common shares outstanding:						
Basic	54.0	58.2		54.0	60.1	
Diluted	54.9	58.8		54.6	60.8	

Please refer to Footnotes at the end of this release.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in millions)

ASSETS	September 30, 2017	December 31, 2016
	(unaudited)	
Current Assets:		
Cash and cash equivalents	\$ 41.8	\$ 65.7
Accounts receivable, net	363.6	345.1
Inventories	188.8	196.8
Prepaid expenses and other current assets	63.1	63.9
Total Current Assets	657.3	671.5
Property, plant and equipment, net	424.1	422.2
Goodwill	732.9	722.5
Other intangible assets, net	671.9	678.7
Deferred income taxes	27.3	22.5
Other non-current assets	221.8	185.2
Total Assets	\$ 2,735.3	\$ 2,702.6
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	\$ 244.7	\$ 219.3
Accrued expenses and other current liabilities	273.2	250.1
Income taxes payable	26.4	5.8
Current portion of long-term debt	66.3	70.3
Total Current Liabilities	610.6	545.5
Long-term debt, net	1,686.7	1,817.8
Deferred income taxes	160.4	174.6
Other non-current liabilities	190.0	169.3
Total Liabilities	2,647.7	2,707.2
Redeemable non-controlling interest	3.4	7.6
Total Stockholders' Equity (Deficit)	84.2	(12.2)
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity (Deficit)	\$ 2,735.3	\$ 2,702.6

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(in millions)
(unaudited)

	Nine Months Ended	
	September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income before non-controlling interests	\$ 94.9	\$ 135.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	60.7	54.3
Amortization of stock-based compensation	8.5	15.3
Amortization of deferred financing costs	1.6	3.0
Bad debt expense	10.1	3.2
Deferred income taxes	(18.4)	(15.7)
Dividends received from unconsolidated affiliates	8.7	7.3
Equity income in earnings of unconsolidated affiliates	(10.6)	(8.6)
Non-cash interest expense on 8.0% Sealy Notes	—	4.0
Loss on extinguishment of debt	—	47.2
(Gain) loss on sale of assets	(0.4)	0.8
Foreign currency adjustments and other	(2.3)	(1.5)
Changes in operating assets and liabilities	49.7	(135.1)
Net cash provided by operating activities	202.5	109.8
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(43.4)	(41.9)
Other	4.9	—
Net cash used in investing activities	(38.5)	(41.9)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings under long-term debt obligations	985.9	1,871.5
Repayments of borrowings under long-term debt obligations	(1,124.7)	(1,659.3)
Proceeds from exercise of stock options	6.5	15.2
Excess tax benefit from stock-based compensation	—	6.0
Treasury stock repurchased	(44.9)	(319.7)
Payment of deferred financing costs	(0.5)	(6.6)
Fees paid to lenders	—	(7.8)
Call premium on 2020 Senior Notes	—	(23.6)
Other	(2.9)	0.1
Net cash used in financing activities	(180.6)	(124.2)
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(7.3)	(8.6)
Decrease in cash and cash equivalents	(23.9)	(64.9)
CASH AND CASH EQUIVALENTS, beginning of period	65.7	153.9
CASH AND CASH EQUIVALENTS, end of period	\$ 41.8	\$ 89.0

Summary of Channel Sales

The following table highlights net sales information, by channel and by segment, for the three months ended September 30, 2017 and 2016:

<i>(in millions)</i>	Three Months Ended September 30,					
	Consolidated		North America		International	
	2017	2016	2017	2016	2017	2016
Wholesale ^(a)	\$ 664.0	\$ 791.3	\$ 547.3	\$ 685.1	\$ 116.7	\$ 106.2
Direct ^(b)	60.8	41.1	33.3	13.4	27.5	27.7
	<u>\$ 724.8</u>	<u>\$ 832.4</u>	<u>\$ 580.6</u>	<u>\$ 698.5</u>	<u>\$ 144.2</u>	<u>\$ 133.9</u>

(a) The Wholesale channel includes all third party retailers, including third party distribution, hospitality, and healthcare.

(b) The Direct channel includes company-owned stores, e-commerce and call centers.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
Reconciliation of Non-GAAP Measures
(in millions, except percentages, ratios and per common share amounts)

The Company provides information regarding adjusted net income, adjusted EPS, adjusted gross profit, adjusted gross margin, adjusted operating income (expense), adjusted operating margin, EBITDA, adjusted EBITDA, consolidated funded debt and consolidated funded debt less qualified cash, and free cash flow, which are not recognized terms under GAAP and do not purport to be alternatives to net income and earnings per share as a measure of operating performance or an alternative to total debt. The Company believes these non-GAAP measures provide investors with performance measures that better reflect the Company's underlying operations and trends, providing a perspective not immediately apparent from net income and operating income. The adjustments management makes to derive the non-GAAP measures include adjustments to exclude items that may cause short-term fluctuations in the nearest GAAP measure, but which management does not consider to be the fundamental attributes or primary drivers of the Company's business, including the exclusion of charges associated with the Mattress Firm termination in the first quarter of 2017 and other costs.

The Company believes that exclusion of these items assists in providing a more complete understanding of the Company's underlying results from continuing operations and trends, and management uses these measures along with the corresponding GAAP financial measures to manage the Company's business, to evaluate its consolidated and business segment performance compared to prior periods and the marketplace, to establish operational goals and to provide continuity to investors for comparability purposes. Limitations associated with the use of these non-GAAP measures include that these measures do not present all of the amounts associated with our results as determined in accordance with GAAP and these non-GAAP measures should be considered supplemental in nature and should not be construed as more significant than comparable measures defined by GAAP. Because not all companies use identical calculations, these presentations may not be comparable to other similarly titled measures of other companies. For more information about these non-GAAP measures and a reconciliation to the nearest GAAP measure, please refer to the reconciliations on the following pages.

Constant Currency Information

In this press release the Company refers to, and in other press releases and other communications with investors the Company may refer to, net sales or earnings or other historical financial information on a "constant currency basis," which is a non-GAAP financial measure. These references to constant currency basis do not include operational impacts that could result from fluctuations in foreign currency rates. To provide information on a constant currency basis, the applicable financial results are adjusted based on a simple mathematical model that translates current period results in local currency using the comparable prior corresponding period's currency conversion rate. This approach is used for countries where the functional currency is the local country currency. This information is provided so that certain financial results can be viewed without the impact of fluctuations in foreign currency rates, thereby facilitating period-to-period comparisons of business performance.

Adjusted Net Income and Adjusted EPS

A reconciliation of GAAP net income to adjusted net income and a calculation of adjusted EPS is provided below. Management believes that the use of these non-GAAP financial measures provides investors with additional useful information with respect to the impact of various adjustments as described in the footnotes at the end of this release.

The following table sets forth the reconciliation of the Company's GAAP net income to adjusted net income and a calculation of adjusted EPS for the three months ended September 30, 2017 and 2016:

<i>(in millions, except per share amounts)</i>	Three Months Ended	
	September 30, 2017	September 30, 2016
GAAP net income	\$ 44.6	\$ 77.8
Latin American subsidiary charges ⁽²⁾	11.7	—
Other costs ⁽³⁾	3.0	—
Tax adjustments ⁽⁴⁾	(4.4)	—
Adjusted net income	<u>\$ 54.9</u>	<u>\$ 77.8</u>
Adjusted earnings per common share, diluted	<u>\$ 1.00</u>	<u>\$ 1.32</u>
Diluted shares outstanding	<u>54.9</u>	<u>58.8</u>

Please refer to Footnotes at the end of this release.

Adjusted Gross Profit and Gross Margin and Adjusted Operating Income (Expense) and Operating Margin

A reconciliation of GAAP gross profit and gross margin to adjusted gross profit and gross margin, respectively, and GAAP operating income (expense) and operating margin to adjusted operating income (expense) and operating margin, respectively, is provided below. Management believes that the use of these non-GAAP financial measures provides investors with additional useful information with respect to the impact of various adjustments as described in the footnotes at the end of this release.

The following table sets forth the reconciliation of the Company's reported GAAP gross profit and operating income (expense) to the calculation of adjusted gross profit and operating income (expense) for the three months ended September 30, 2017:

<i>(in millions, except percentages)</i>	3Q 2017						
	Consolidated	Margin	North America ⁽⁵⁾	Margin	International ⁽⁶⁾	Margin	Corporate
Net sales	\$ 724.8		\$ 580.6		\$ 144.2		\$ —
Gross profit	\$ 312.2	43.1%	\$ 238.4	41.1%	\$ 73.8	51.2%	\$ —
Adjustments	1.0		1.0		—		—
Adjusted gross profit	\$ 313.2	43.2%	\$ 239.4	41.2%	\$ 73.8	51.2%	\$ —
Operating income (expense)	\$ 94.6	13.1%	\$ 99.7	17.2%	\$ 20.8	14.4%	\$ (25.9)
Adjustments	5.5		1.1		4.4		—
Adjusted operating income (expense)	\$ 100.1	13.8%	\$ 100.8	17.4%	\$ 25.2	17.5%	\$ (25.9)

The following table sets forth the Company's reported GAAP gross profit and operating income (expense) for the three months ended September 30, 2016. The Company had no adjustments to GAAP gross profit and operating income (expense) for the three months ended September 30, 2016:

<i>(in millions, except percentages)</i>	3Q 2016						
	Consolidated	Margin	North America	Margin	International	Margin	Corporate
Net sales	\$ 832.4		\$ 698.5		\$ 133.9		\$ —
Gross profit	\$ 362.1	43.5%	\$ 290.1	41.5%	\$ 72.0	53.8%	\$ —
Operating income (expense)	\$ 131.1	15.7%	\$ 128.3	18.4%	\$ 25.6	19.1%	\$ (22.8)

EBITDA, Adjusted EBITDA, Consolidated Funded Debt Less Qualified Cash and Free Cash Flow

The following reconciliations are provided below:

- GAAP net income to EBITDA and adjusted EBITDA
- Total debt to consolidated funded debt less qualified cash
- Ratio of consolidated funded debt less qualified cash to adjusted EBITDA
- Net cash provided by operating activities to free cash flow

Management believes that presenting these non-GAAP measures provides investors with useful information with respect to the Company's operating performance, cash flow generation, and comparisons from period to period, as well as general information about the Company's progress in reducing its leverage.

Please refer to Footnotes at the end of this release.

The following table sets forth the reconciliation of the Company's reported GAAP net income to the calculations of EBITDA and adjusted EBITDA for the three months ended September 30, 2017 and 2016:

<i>(in millions)</i>	Three Months Ended	
	September 30, 2017	September 30, 2016
GAAP net income	\$ 44.6	\$ 77.8
Interest expense, net	32.0	20.5
Income taxes	20.3	33.7
Depreciation and amortization	26.9	23.0
EBITDA	<u>\$ 123.8</u>	<u>\$ 155.0</u>
Adjustments:		
Latin American subsidiary charges ⁽²⁾	2.5	—
Other costs ⁽³⁾	3.0	—
Adjusted EBITDA	<u>\$ 129.3</u>	<u>\$ 155.0</u>

The following table sets forth the reconciliation of the Company's net income to the calculations of EBITDA and adjusted EBITDA for the trailing twelve months ended September 30, 2017:

<i>(in millions)</i>	Trailing Twelve Months Ended	
	September 30, 2017	
GAAP net income	\$	166.4
Interest expense, net		96.4
Income taxes		74.6
Depreciation and amortization		89.1
EBITDA	<u>\$</u>	<u>426.5</u>
Adjustments:		
Customer termination charges ⁽⁷⁾		34.3
Restructuring costs ⁽⁸⁾		7.8
Latin American subsidiary charges ⁽²⁾		2.5
Other costs ⁽³⁾		3.0
Adjusted EBITDA	<u>\$</u>	<u>474.1</u>
Consolidated funded debt less qualified cash	\$	1,753.4

Ratio of consolidated funded debt less qualified cash to adjusted EBITDA 3.70 times

Under the Company's senior secured credit agreement entered into during 2016 ("2016 Credit Agreement"), adjusted EBITDA contains certain restrictions that limit adjustments to GAAP net income when calculating adjusted EBITDA. For the twelve months ended September 30, 2017, the Company's adjustments to GAAP net income when calculating adjusted EBITDA did not exceed the allowable amount under the 2016 Credit Agreement.

The ratio of adjusted EBITDA under the Company's 2016 Credit Agreement to consolidated funded debt less qualified cash is 3.70 times for the trailing twelve months ended September 30, 2017. The Company's 2016 Credit Agreement requires the Company to maintain a ratio of consolidated funded debt less qualified cash to adjusted EBITDA of less than 5.00:1.00 times.

Please refer to Footnotes at the end of this release.

The following table sets forth the reconciliation of the Company's reported total debt to the calculation of consolidated funded debt less qualified cash as of September 30, 2017. "Consolidated funded debt" and "qualified cash" are terms used in the Company's 2016 Credit Agreement for purposes of certain financial covenants.

<i>(in millions)</i>	September 30, 2017	
Total debt, net	\$	1,753.0
Plus: Deferred financing costs ⁽⁹⁾		9.9
Total debt		1,762.9
Plus: Letters of credit outstanding		22.4
Consolidated funded debt	\$	1,785.3
Less:		
Domestic qualified cash ⁽¹⁰⁾		17.2
Foreign qualified cash ⁽¹⁰⁾		14.7
Consolidated funded debt less qualified cash	\$	1,753.4

The following table sets forth the reconciliation of the Company's net cash from operating activities to free cash flow for the three and nine months ended September 30, 2017 and 2016:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net cash provided by operating activities	\$ 127.3	\$ 57.9	\$ 202.5	\$ 109.8
Subtract: Purchases of property, plant and equipment	17.5	17.6	43.4	41.9
Free cash flow	\$ 109.8	\$ 40.3	\$ 159.1	\$ 67.9

Please refer to Footnotes at the end of this release.

Footnotes:

- (1) In the first quarter of 2017, the Company recorded \$25.9 million of net charges related to the termination of the relationship with Mattress Firm. Cost of sales included \$11.5 million of charges related to the write-off of customer-unique inventory and product obligations. Operating expenses included \$14.4 million of net charges, which included a write-off of \$17.2 million for customer incentives and marketing assets, \$5.8 million of employee-related costs and \$0.7 million of professional fees. These charges were offset by \$9.3 million of benefit related to the change in estimate associated with performance-based stock compensation that is no longer probable of payout following the Mattress Firm termination.
- (2) In the third quarter of 2017, the Company recorded \$11.7 million of charges related to non-income taxes and financing arrangements in one of its Latin American subsidiaries. Interest expense includes \$9.2 million of charges, comprised of \$4.9 million of interest expense on the non-income tax obligations and \$4.3 million of interest expense on the financing arrangements. Operating expenses include \$2.5 million of non-income tax charges.
- (3) In the third quarter of 2017, the Company incurred \$3.0 million in other costs. Cost of sales include \$1.0 million of hurricane-related manufacturing and logistics costs due to the impact on certain manufacturing facilities and distribution centers. Operating expenses include \$2.0 million of bad debt expense associated with a customer's bankruptcy and donations for hurricane relief efforts.
- (4) Adjusted income tax provision represents adjustments associated with the aforementioned items and other discrete income tax events.
- (5) Adjustments for the North America business segment represent \$1.1 million of hurricane-related costs, which were recorded primarily in cost of sales as discussed in Footnote 3 above.
- (6) Adjustments for the International business segment represent \$2.5 million of non-income tax charges in one of the Company's Latin American subsidiaries and \$1.9 million of bad debt expense associated with a customer's bankruptcy.
- (7) Adjusted EBITDA excludes \$34.3 million of charges related to the termination of the relationship with Mattress Firm. This amount represents the \$25.9 million of net charges discussed in Footnote 1 above, and adds the net amortization impact of \$8.4 million of stock-based compensation benefit incurred in the first quarter of 2017.
- (8) Restructuring costs represents costs associated with headcount reduction and store closures.
- (9) The Company presents deferred financing costs as a direct reduction from the carrying amount of the related debt in the Condensed Consolidated Balance Sheets. For purposes of determining total debt for financial covenant purposes, the Company has added these costs back to total debt, net as calculated in the Condensed Consolidated Balance Sheets.
- (10) Qualified cash as defined in the 2016 Credit Agreement equals 100.0% of unrestricted domestic cash plus 60.0% of unrestricted foreign cash. For purposes of calculating leverage ratios, qualified cash is capped at \$150.0 million.